



**Montana Tree Farm System**  
PO Box 17276  
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February 13, 2009

**Testimony to the Joint Select Committee on Reappraisal**  
**Senator Kelly Gebhardt, Chairman**

**RE: Forestland taxation reappraisal 2009**

Mr. Chairman:

The Montana Tree Farm System currently has just over 400 certified family forests in membership, encompassing over 130,000 acres of private timberlands in Montana. Our members own and manage these lands for multiple use, Wood, Water, Wildlife and Recreation. Many of these lands have been passed from generation to generation and along with the acres came a stewardship ethic that encourages long term sustainable forest management. All of these lands are managed in accordance with a written management plan and have been third party certified as sustainably managed forests.

These family forest lands are under constant pressure for conversion to other uses. Many of our members are at a point in their lives where they are considering how to pass these lands on to the next generation. Forest management is a long term investment. Many years of hard work and capital investment go into these family forests with the hope that sometime in the future there will be some economic return. Our members know that there is no insurance policy you can buy to secure that possible future return. Tree Farmers are faced with a staggering variety of risk, fire, insects, disease, drought, regulation, variable taxes and fees and possible disappearance of a market for our product. We have to endure these risks for long periods of time, usually upwards of 70-100 years.

The forestland productivity tax system is intended to tax these lands based upon current use, which is growing trees. Unfortunately, many transactions in timberland today are not based on a primary use of growing trees. We feel that the perception of "land values" for timberland are somewhat distorted by these transactions. For those of us whose primary motivation for owning these lands is to keep them as working forests, keeping forestland taxes at a level that is reflective of true forestland value, its value for growing trees, is extremely important. From our perspective, the proposed land values are too high and are not reflective of current forestland values and forest product values from managed timberlands.

Our organization and our members have historically been intimately involved in the development and implementation of the productivity tax system. We still feel that the productivity system is the best and most equitable way to assess the necessary tax. However, we are disappointed in how the 2009 reappraisal is being handled. The reappraisal process has not been open and inclusive to forest landowners. So far, our members have only received a map with lines and number on it. They have been

asked by the Department of Revenue to verify if the classification and productivity is correct. Yet they received no information on per acre value, per acre productivity or ultimately, tax liability. This is in stark contrast to how past reappraisals have been done. We ask that opportunities for meaningful input and review of the reappraisal process be provided to landowners throughout the reappraisal process to ensure equitable and accurate valuation of these lands.


Additionally, we feel that the proposed stumpage values are too high and are not representative of actual stumpage values that could be expected by a private landowner. The proposed annual productivity yields are higher than can reasonably be achieved in most of Montana's forests. The capitalization rate is much lower than what would be used by a prudent forestland investor. All of these factors have resulted in an overall per acre increase in valuation of nearly 44%. This dramatic increase comes at a time when markets for wood products are at an all time low and in some areas, these markets may completely disappear.

We understand that the department has been directed to make the reappraisal "revenue neutral" on average. While this may mitigate immediate impact to some individual landowners in the short term, we feel that it is imperative to fix the process so that the underlying appraised land values are accurate. It sets a dangerous precedent to allow inaccurate valuation be mitigated by adjustments to tax rates and mill levies.

Significant increases in forestland taxation rates will force landowners to consider their risk to benefit ratios much closer. Landowners may not be willing to accept the levels of risk that are associated with timberland investments, especially if potential future economic return on the investment is further reduced by high property taxes. Significant increases in property taxes may be the proverbial straw that breaks the camels back that forces fragmentation and conversion of these working forests. The benefits of these working family forests range far beyond their property boundaries. Clean air, clean water and healthy wildlife habitat along with sustainable communities all have roots in working family forests.

Thank you for the opportunity to comment and we look forward to continued participation in the forestland valuation process.

Sincerely,



Paul R. McKenzie  
Chairman  
Montana Tree Farm System